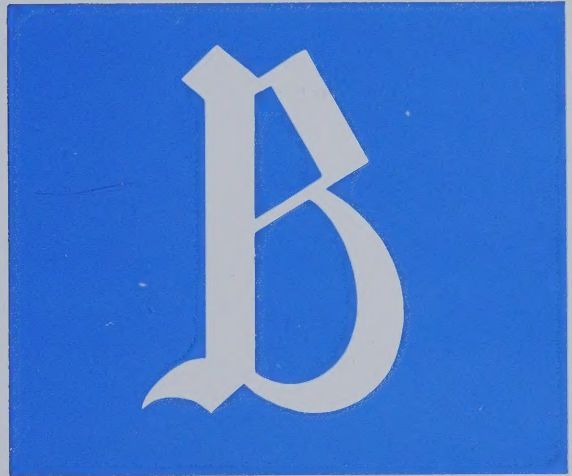


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BILTMORE



annual report 1975

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BILTMORE INDUSTRIES
GUELPH CANADA *Limited*

BILTMORE INDUSTRIES
GUELPH • CANADA *Limited*

*Six Months Report
June 30th 1975*

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1975
(with comparative figures for 1974)

	1975	1974
Sales	\$ 2,757,028	\$ 2,430,391
Cost of Sales	1,748,985	1,616,355
Selling general and administrative expenses	902,918	742,916
Net Income before taxes	2,651,903	2,359,271
Income taxes	105,125	71,120
	(52,900)	(37,300)
Net Income for Period	\$ 52,225	\$ 33,820
Earnings per common share based on the weighted average number of shares outstanding during the period	11.0¢	4.9¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1975
(with comparative figures for 1974)

	1975	1974
Funds were provided by:		
Operations	\$ 52,225	\$ 33,820
Net income for period	19,626	21,278
Add depreciation and amortization not involving an outlay of funds	71,851	55,098
	4,958	4,118
Sale of fixed assets	76,809	59,216
Funds were used for:		
Additions to fixed assets	10,413	21,441
Dividends	34,729	34,733
Reduction of long term debt	2,700	3,200
Increase in cash surrender value of life insurance of subsidiary	489	1,241
Increase in working capital	48,331	60,615
Working capital at end of period	28,478	(1,399)
Working capital at end of period	1,059,667	860,504
Working capital at end of period	\$ 1,088,145	\$ 859,105

Dear Shareholder:

On behalf of the Board of Directors, I submit the unaudited financial statements for the six months ending June 30, 1975.

Earnings for the half-year are \$52,225, as against \$33,820 last year. Consolidated shipments are up 13% at \$2,757,028 versus \$2,430,391.

Headwear bookings for fall delivery, one of the most important indicators of our business at this time of year, are running 5.6% ahead of last year in dollar terms. We are facing strong upward cost pressures in almost all areas of the business, particularly major raw materials. This situation is adversely affecting margins in spite of price increases.

The margins of Watson Brothers Limited, our neckwear subsidiary, while still good, have been adversely affected by increasing wage and material costs in the first half. However, at this time, sales activity is picking up as we go into the important fall season. An emphasis on higher prices and a new fashion in ties is starting to yield returns.

Custom Leather Products Limited has shown a very real improvement over last year. Sales are well ahead, and most important, margins are improved. We look to Custom to contribute significantly to this year's earnings.

On behalf of the Board of Directors

Michael McMillan
President

five year financial summary

	<u>1975</u>	<u>1974</u>	<u>1973¹</u>	<u>1972²</u>	<u>1971</u>
Income					
Sales	\$ 7,793,668	\$ 6,853,181	\$ 6,058,752	\$ 3,842,809	\$ 2,662,746
Net income for year ³	234,926	236,634	220,527	127,431	45,194
Earnings per share ⁴					
Undiluted	67.4¢	68.1¢	62.9¢	35.5¢	2.2¢
Fully diluted	51.5¢	52.0¢	48.3¢	30.6¢	2.2¢
Financial Position					
Working Capital	\$1,194,730	1,059,667	894,065	919,474	817,556
Fixed Assets—net	342,479	344,694	361,886	343,186	305,353
Other Assets	388,922	342,815	311,160	135,441	87,792
	<u>1,926,131</u>	<u>1,747,176</u>	<u>1,567,111</u>	<u>1,398,101</u>	<u>1,210,701</u>
Long-Term Debt	10,800	13,500	16,700	28,753	55,664
Shareholders' Equity	<u>\$ 1,915,331</u>	<u>\$ 1,733,676</u>	<u>\$ 1,550,411</u>	<u>\$ 1,369,348</u>	<u>\$ 1,155,037</u>

1. Includes results for Custom Leather Products Limited and Watson Brothers Limited for twelve months.
2. Year-end was changed from October 31 to December 31. Results are for fourteen months including results of Custom Leather Products Limited for two months.
3. The year 1971 has been adjusted to reflect the retroactive charge to earnings of the cost of an annuity contract purchased under an agreement with a director and senior officer.
4. Reflects the 1972 share split of four new common shares plus one Class "B" share for each old common share, and four Convertible Class "A" shares plus one Class "B" share for each Class "A" share. In 1973, the Class "B" shares were exchanged for common shares and the Convertible Class "A" shares were re-classified as Convertible Preferred shares.

the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report.

Earnings for the twelve months ending December 31, 1975 were \$234,926 or 67.4¢ per share (51.5¢ per share fully diluted) as compared to \$236,634 or 68.1¢ per share (52.0¢ per share fully diluted) for the previous year. Dividends of 25¢ per preferred share and 5¢ per common share were paid during the year.

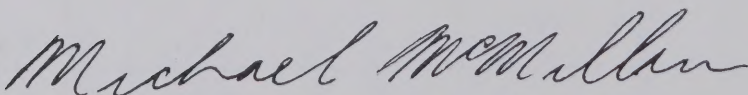
Headwear operations were difficult in 1975. While dollar shipments were ahead 2.9%, profit margins were down as manufacturing costs rose at unprecedented rates. Raw material, particularly rabbit fur, which is our basic material for men's fur felt hats, increased far beyond expectations — some prices more than doubled during the year. In addition, rising labour costs compounded matters. Selling prices were increased substantially last year; however, in spite of the large increases, margins could not be maintained. We have again increased prices for this coming fall season and are effecting internal economies to combat the heavy pressure on our margins.

Watson Brothers Limited, fine quality neckwear manufacturers, had another good year. Shipments were ahead 9.4% and profits were approximately even with the previous year. We are happy to advise that the earnings of Watson were more than sufficient to warrant full payment on that part of the notes payable, contingent on 1975 earnings.

Custom Leather Products Limited has made a dramatic turnaround. This subsidiary contributed significantly to the profits of the corporation during 1975. Sales were ahead a remarkable 42%! The management team, headed by Mr. George Chuchman, has done an excellent job in taking the company to a leadership position in its market, improving margins and achieving production efficiencies. Please note that the company has no further financial obligations in regards to the purchase of Custom.

We extend our appreciation for the full support and co-operation of our co-workers, as well as thousands of retailers from coast to coast, all of whom have contributed to our operations in 1975.

ON BEHALF OF THE BOARD OF DIRECTORS,

A handwritten signature in cursive script, reading "Michael McMillan". The signature is written in dark ink and is positioned above the printed name and title.

Michael McMillan,
President.

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated statement of income

	Year Ended December 31	
	1975	1974
Sales	\$ 7,793,668	\$ 6,853,181
Cost of sales	5,125,579	4,509,550
Selling, general and administrative expenses	2,276,163	1,910,997
	7,401,742	6,420,547
Income before taxes and extraordinary item	391,926	432,634
Income taxes—Current	161,900	191,800
—Deferred	4,200	4,200
	166,100	196,000
Income before extraordinary item	225,826	\$ 236,634
Extraordinary item: Reduction of current year's income taxes of a subsidiary on application of a loss carryforward	9,100	
Net Income	\$ 234,926	\$ 236,634
Earnings per common share based on the weighted average number of shares outstanding during the year		
Before extraordinary item	64.3¢	68.1¢
After extraordinary item	67.4¢	68.1¢
Fully diluted earnings per share (Note 1)		
Before extraordinary item	44.6 46.9¢	52.0¢
After extraordinary item	51.5¢	52.0¢

consolidated statement of retained earnings

Balance at beginning of year	\$ 1,498,213	\$ 1,314,948
Net income	234,926	236,634
	1,733,139	1,551,582
Dividends:		
Preferred shares	38,728	38,831
Common shares	14,543	14,538
	53,271	53,369
Balance at end of year	\$ 1,679,868	\$ 1,498,213

consolidated balance sheet

Assets

	December 31	
	1975	1974
Current:		
Cash	\$ 150,137	\$ 202,453
Accounts receivable	1,869,859	1,504,507
Income taxes recoverable	9,235	—
Inventories (Note 2)	1,785,996	1,627,880
Prepaid expenses	1,231	1,357
	<u>3,816,458</u>	<u>3,336,197</u>
Cash surrender value of life insurance	3,372	3,065
Fixed assets, at cost (Note 3)	1,579,819	1,550,114
Less - Accumulated depreciation	<u>1,237,340</u>	<u>1,205,420</u>
	342,479	344,694
Deferred income tax charges	8,600	12,800
Excess of cost of shares in subsidiaries over net book value of assets acquired (Note 4)	<u>376,950</u>	<u>326,950</u>
	<u>\$ 4,547,859</u>	<u>\$ 4,023,706</u>

Approved by the Board:

D. Michael McMillan, Director

George H. Montague, Director

Liabilities

	December 31	
	1975	1974
Current:		
Bank advances (Note 5)	\$ 1,660,379	\$ 1,490,352
Accounts payable and accrued liabilities	899,377	700,035
Notes payable	50,000	50,000
Income taxes payable	—	23,625
Dividends payable	9,272	9,318
Current portion of long-term debt	2,700	3,200
	<u>2,621,728</u>	<u>2,276,530</u>
Long-term debt payable to April 30, 1980	10,800	13,500
	<u>2,632,528</u>	<u>2,290,030</u>
Shareholders' Equity		
Capital stock (Notes 6 and 7)	235,463	235,463
Retained earnings	1,679,868	1,498,213
	<u>1,915,331</u>	<u>1,733,676</u>
	<u>\$ 4,547,859</u>	<u>\$ 4,023,706</u>

consolidated statement of changes in financial position

	Year Ended December 31	
	1975	1974
Funds were provided by:		
Operations—		
Income before extraordinary item	\$ 225,826	\$ 236,634
Add charges which do not affect current funds—		
Depreciation and amortization	49,146	45,427
Deferred income taxes	4,200	4,200
	<hr/> 279,172	<hr/> 286,261
Reduction of current year's income taxes of a subsidiary on application of a loss carryforward	9,100	—
Proceeds on surrender of life insurance policy	—	15,624
Sale of fixed assets	14,779	1,339
	<hr/> 303,051	<hr/> 303,224
Funds were used for:		
Purchase of fixed assets	61,710	29,574
Increase in cash surrender value of life insurance in subsidiary	307	1,479
Reduction of long-term debt	2,700	3,200
Dividends	53,271	53,369
Excess of cost of shares in subsidiary company over net book value of assets acquired	50,000	50,000
	<hr/> 167,988	<hr/> 137,622
Increase in working capital	135,063	165,602
Working capital at beginning of year	1,059,667	894,065
Working capital at end of year	<hr/> <u>\$ 1,194,730</u>	<hr/> <u>\$ 1,059,667</u>

notes to consolidated financial statements

DECEMBER 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Fixed Assets and Depreciation

Fixed assets are carried at cost. Depreciation is calculated on a diminishing balance basis at annual rates of 5 per cent on buildings, 20 per cent on machinery and equipment and 30 per cent on automotive equipment. Leasehold improvements are amortized over the life of the lease plus one renewal option term if applicable.

Deferred Income Taxes and Income Taxes Payable

Deferred income taxes are provided for expense items reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference, the tax effect of which is reflected under this heading. Provision is made for all income taxes currently payable.

Excess of Cost of Shares in Subsidiaries Over Net Book Value of Assets Acquired

The excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Earnings Per Share

Earnings per common share calculations are based on the weighted average number of shares of common stock outstanding during the respective years, after net earnings are reduced for convertible preferred dividend requirements. Fully diluted earnings per share calculations assume the conversion of convertible preferred shares and the exercise of the outstanding option. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of options has been assumed. The calculation does not include the shares which may arise as a result of the circumstances described in note 8 because their issuance is wholly dependent on earnings accruing in the subsidiary in future years.

2. INVENTORIES

	December 31	
	1975	1974
Raw materials and supplies	\$ 739,952	\$ 767,585
Work-in-process	457,956	379,997
Finished goods	588,088	480,298
	<u>\$1,785,996</u>	<u>\$1,627,880</u>

3. FIXED ASSETS

	December 31, 1975		December 31, 1974	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land	\$ 1,850	—	\$ 1,850	\$ 1,850
Buildings	430,167	227,682	202,485	213,143
Machinery and equipment	1,119,298	994,399	124,899	107,153
Leasehold improvements	28,504	15,259	13,245	22,548
	<u>\$1,579,819</u>	<u>\$1,237,340</u>	<u>\$342,479</u>	<u>\$344,694</u>

4. GOODWILL

The excess of cost of shares in subsidiaries over net book value of assets acquired has increased by \$50,000 in 1975 by a payment made in accordance with the agreement described in Note 8.

5. BANK LOANS AND ADVANCES

The Company and a subsidiary have pledged accounts receivables and inventories with a carrying value of \$2,385,854 as security for bank advances of \$1,660,379.

6. CAPITAL STOCK

a) Authorized

158,000 convertible shares without par value, entitled to cumulative dividend of 25c per share per annum, each convertible into common shares on a share for share basis.
2,000,000 common shares without par value.

	1975	1974
b) Issued		
154,525 convertible preferred shares (155,295 in 1974)	\$ 33,020	\$ 33,185
291,625 common shares (290,855 in 1974), including		
770 (1974 - 2,105) shares issued on conversion of preferred shares	202,443	202,278
	<u>\$235,463</u>	<u>\$235,463</u>

c) Common shares reserved

For the conversion of convertible preferred shares	154,525
For the exercise of options	15,000
For the conversion of notes payable—	
See Note 8	32,000
	<u>201,525</u>

7. OPTIONS

On June 9, 1972 the Company granted an option to an officer to purchase a total of 15,000 common shares at a price of \$3.25 per share. The option, which expires on June 8, 1977, entitles the holder to purchase on a cumulative basis up to 3,000 common shares in each year of the option period. No options were exercised in 1975.

8. OTHER CONTINGENT LIABILITIES

Under the terms of an agreement pertaining to the acquisition of the shares of a subsidiary in 1973, the Company may be obligated to pay, contingent additional amounts over a four year period, as determined by a formula based upon the acquired Company's earnings, not to exceed in aggregate \$250,000.

Under the terms of the formula above, \$100,000 of the contingent amount has previously been paid and \$50,000 has become due in respect of the year ended December 31, 1975. This latter amount is included in notes payable at that date. The contingent amounts payable have correspondingly been reduced to \$100,000.

notes to consolidated financial statements

continued

The amount due at December 31, 1975 and the balance of the contingent consideration noted are represented in part by a note convertible at the option of the holder into a maximum of 32,000 common shares at the rate of 1 common share for each \$3.75 principal amount determined to be payable in the years 1976 through 1978.

9. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December 31, 1975 the aggregate amounts paid or payable by the Company and its subsidiaries to seven directors in their capacity as directors was \$1,950 (\$900 in 1974) and to six officers as officers was \$186,850 (\$166,236 in 1974). Three of the directors are also officers of the Company or its subsidiaries.

10. OTHER INFORMATION

	1975	1974
Depreciation and amortization:		
Included in cost of sales	\$ 36,032	\$ 32,945
Included in selling, general and administrative expenses	13,114	12,482
	<u>\$ 49,146</u>	<u>\$ 45,427</u>

Interest		
On current debt	\$181,149	\$178,505
On long-term debt	—	314
	<u>\$181,149</u>	<u>\$178,819</u>

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Biltmore Industries Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of one of the consolidated subsidiaries which statements reflect total assets and revenues constituting 29% and 31% respectively of the related consolidated totals and we have relied on the report of the auditors who have examined the financial statements of this subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Kitchener, Ontario
February 16, 1976

Chartered Accountants

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
* D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* GEORGE H. MONTAGUE, Toronto, Ontario
* PHILIP M. SPICER, Hamilton, Ontario
DAVID B. WELDON, London, Ontario

* Member of the Audit Committee

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

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